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SUBJECT: ITALY: FINANCE MINISTER REPLACED BY PREDECESSOR,
FAZIO REMAINS UNDER FIRE: COALITION STABLE

Classified By: Acting Political M/C Jonathan Cohen.
Reasons 1.4 b and d.

¶11. (C) SUMMARY: Deputy PM Giulio Tremonti was named Italy's Finance Minister on September 22 after Domenico Siniscalco resigned in protest over the government's lack of action against embattled Bank of Italy Governor Antonio Fazio. This is Tremonti's second term as Finance Minister since 2001, his first having ended 14 months ago. The decision to send Tremonti back to the Finance Ministry was part of a larger political play within Berlusconi's governing block, demonstrating that the center-right coalition still remains capable of pulling together when the situation becomes difficult. However, continued squabbling should be expected among Berlusconi's coalition partners over coalition leadership. END SUMMARY.

TREMONTI RETURNS TO FINANCE MINISTRY

¶12. (U) The long simmering dispute over whether Bank of Italy (BoI) Governor Antonio Fazio should resign claimed its first victim. Internationally respected Minister of Finance Domenico Siniscalco resigned September 22, stating "it is no longer appropriate for the Bank of Italy Governor to continue in his role as it is no longer compatible with the international credibility of our country." Siniscalco criticized the government for not working to remove Fazio; Siniscalco had also proposed a fiscally responsible budget for 2006, which was widely criticized by politicians looking for election-year pork. After meeting with President Carlo Ciampi September 22 and later with the four parties in the government, Prime Minister Silvio Berlusconi named Deputy Prime Minister Giulio Tremonti as Finance Minister. As a vote of support for Tremonti, Berlusconi for the first time called publicly for Fazio's resignation.

¶13. (SBU) This is Tremonti's second term as Finance Minister since the Berlusconi government was elected in 2001. He was ousted fourteen months ago after persistent battles both with Fazio and Deputy Prime Minister Gianfranco Fini. Tremonti is a Berlusconi/Forza Italia (FI) loyalist, who also maintains very close ties with Northern League leader Umberto Bossi. During his first term as FinMin, Tremonti consistently proposed budgets that Fini perceived as having a negative impact on his constituent base in southern Italy and among government employees. However, when Fini threatened to withdraw the National Alliance (AN) from the governing coalition unless Tremonti was removed, Berlusconi consented. Siniscalco, a respected technocrat, was named the new Finance Minister.

SINISCALCO RESIGNATION FORCES CENTER-RIGHT TO CIRCLE WAGONS

¶14. (SBU) The decision to send Tremonti back to the Finance Ministry was part of a larger political play within Berlusconi's governing coalition. The center-right has been plagued over the past few months by internal squabbles over Fazio's refusal to resign from the BoI, a leadership challenge from the UDC, and a rancorous debate over electoral reform. Fini reportedly told Berlusconi he would accept Tremonti's return if Berlusconi publicly withdrew his tacit support for Fazio.

¶15. (SBU) The details of the negotiations aired publicly in a joint press conference September 22 in which UDC party Secretary Marco Follini also repeated his call for a

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leadership change in the coalition; Berlusconi confirmed he believes he is a net "asset" for the coalition; and both agreed the coalition would decide the outcome of the leadership dispute in a "democratic process."

COMMENT

16. (C) Siniscalco was a non-partisan technocrat, who brought Italy credibility within the European Union and the International Monetary Fund, as well as in world markets. While Tremonti, in his first term, proved a competent Finance Minister, he was often too ready to engage in unsustainable one-off budgetary measures to address Italy's budget imbalances and huge debt. Nonetheless, with Italy's budget due by law to the Parliament by September 30, Tremonti's ability to take over the portfolio without a learning curve

made him an obvious choice. Tremonti will be more willing than Siniscalco to mold the budget to election year political exigencies, but his track record should offer the EU, IMF and international markets some measure of assurance in the short run. From a broader perspective, however, this latest Italian melodrama reconfirms the Berlusconi Government's inability to make the hard choices required to lift Italy out of its economic difficulties.

17. (C) COMMENT CONTINUED: That said, Berlusconi has once again proven he can still keep his coalition together. But continued infighting has further weakened the coalition's public image in the wake of the latest public opinion poll, which shows the center-right trailing by eight points. END COMMENT.

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